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Inventronics Limited

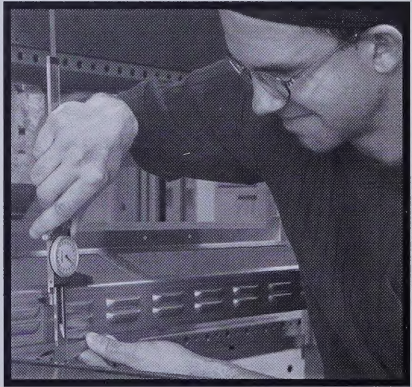
Annual Report 2003

Designing and Manufacturing Custom Metal Enclosures

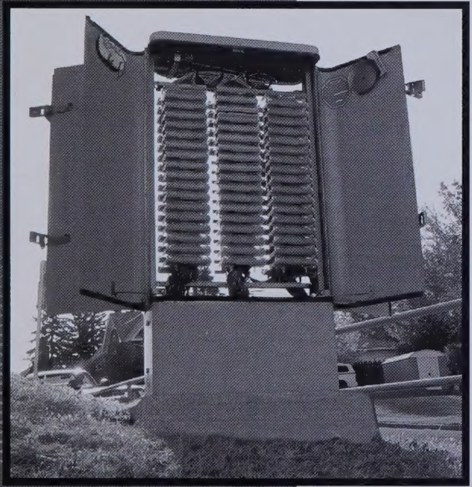
Inventronics Limited *is a contract manufacturer that provides outsourced services in the design, manufacture and integration of sophisticated metal enclosures for the communications, electronics and other industries.*

Inventronics adds value

As a supply chain partner, Inventronics adds value by providing a variety of essential services including design, procurement, prototyping, manufacturing, assembly, testing, third-party certification and distribution.



The 34-year-old Corporation owns and operates a world-class, ISO 9001:2000-registered manufacturing facility in Brandon, Manitoba that produces **a diverse range of metal enclosures** and related products for customers throughout North America. The Brandon facility's commitments to quality and customer service have enabled it to serve as an outsource partner and supplier for decades to some of the world's largest and most demanding communications and electronics companies.



To broaden its customer and revenue base beyond the **telecommunications and electronics industries,** Inventronics now offers its enclosure products and services to additional industries including cable television, traffic controls, electric utilities, computer server storage, and energy resources.

▶ Five-Year Financial Highlights

($ 000's, except per share figures)	*2003*	*2002*	*2001*	*2000*	*1999**
Operating Performance					
Sales	**$ 13,951**	$ 25,567	$ 48,203	$ 50,314	$ 20,788
EBITDA before restructuring costs	**$ 449**	$ 113	$ (153)	$ 3,349	$ (145)
Operating earnings (loss)	**$ (693)**	$ (4,182)	$ (2,913)	$ 2,371	$ (558)
Net earnings (loss)	**$ (1,505)**	$ (7,376)	$ (4,295)	$ 1,305	$ (670)
Balance Sheet Data					
Working capital	**$ 334**	$ 1,352	$ 405	$ 8,704	$ (1,129)
Capital assets	**$ 7,473**	$ 8,168	$ 11,997	$ 10,623	$ 4,898
Long-Term Debt	**$ 4,801**	$ 5,053	$ 5,614	$ 2,792	$ 716
Shareholders' equity	**$ 3,965**	$ 5,388	$ 12,375	$ 16,999	$ 3,979
Common Share Data					
Basic earnings (loss) per share	**$ (0.22)**	$ (1.07)	$ (0.62)	$ 0.39	$ (0.25)
Diluted earnings (loss) per share	**$ (0.22)**	$ (1.07)	$ (0.62)	$ 0.27	$ (0.25)
Book value per share	**$ 0.58**	$ 0.78	$ 1.80	$ 2.44	$ 1.42
Common shares outstanding at year end	**6,875,726**	6,875,726	6,875,726	6,963,933	2,773,629

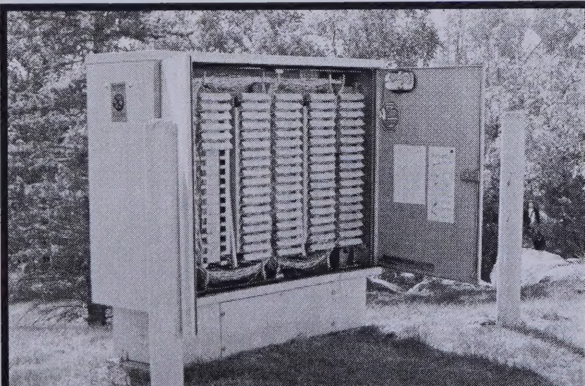
** Seven-month transition year ended December 31*

▶ Message to Investors

As Inventronics entered 2003, we had just completed a major restructuring and consolidation of operations to reduce costs in response to almost two years of severe downturn in the telecommunications industry, which is the Company's largest source of revenue.

The Company faced several important challenges and risks in early 2003:

- *a letter of credit and guarantee to a former subsidiary totalling $2,400,000;*
- *two significant liabilities in the form of long-term leases for redundant premises;*
- *the need to secure new business outside the telecommunications industry in the face of a weak electronics market; and*
- *a continuing decline in the telecommunications industry.*



In addition to these visible risks, we were confronted with a devaluing US dollar that, because most of our sales are transacted in US dollars, had the result of significantly decreasing our sales, income and cash flow.

In the face of these challenges, and as the telecommunications industry downturn continued, **we developed and executed the following plans** in 2003:

- *a one-third or $800,000 reduction of the letter of credit and guarantee;*
- *the termination, for an aggregate cost to Inventronics of $200,000, of a manufacturing facility lease that was to continue for eight more years at a cost of $300,000 per year;*
- *the sublet of office space in Calgary for the balance of the lease term and a move into smaller, less expensive space;*
- *a $600,000 reduction in annual fixed costs to $1,500,000 from $2,100,000; and*
- *the addition of a modest, but important, amount of new business outside the telecommunications industry.*

The impact of these initiatives was to increase Inventronics' EBITDA before restructuring costs to $449,000 in 2003 from $113,000 in 2002, and to significantly reduce Inventronics' net loss to $1,505,000 from $7,376,000. The 2003 net loss was mainly composed of foreign exchange losses, employee severance payments and lease settlement costs.

In September 2003, Inventronics **secured a Tier 1 listing** of our common shares on the TSX Venture Exchange. We sought the transfer in response to the fact the value of our shares had fallen below the required threshold for continued listing on the Toronto Stock Exchange.

Although most of 2003 was a continuation of the telecom sector downturn that plagued our industry throughout much of 2001 and 2002, in the last quarter we began to see some improvements that have carried through to early 2004.

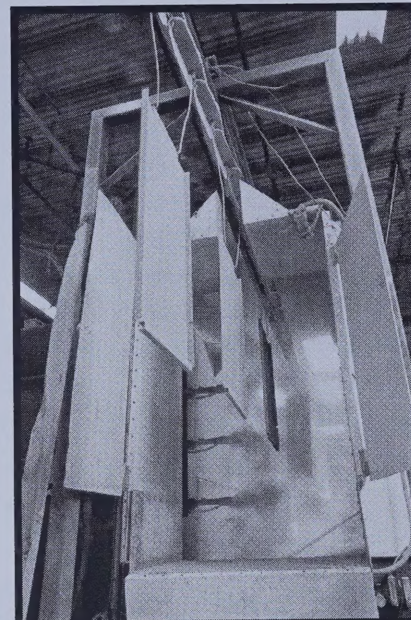
The North American economy is growing, which is helping fuel a very gradual recovery in the communications industry. Meanwhile, the Canadian dollar exchange rate remains at a substantially elevated level from where it was in early 2003, but appears to have stabilized.

At Inventronics, we are experiencing a **gradual increase in sales,** thanks to new business from existing customers and from new customers. The Company is progressing in developing relationships with, and attracting orders from, non-telecom customers to reduce our dependency on any particular industry. Meanwhile, we are continuing to tightly control our operating costs, and don't anticipate any additional one-time costs similar to those experienced in 2003.

Inventronics' **success in overcoming its challenges** during the past year is a direct result of the experience and determination of our employees. I sincerely thank each of them, and each of our customers and shareholders, for their loyalty during 2003, and for their continued support in what we expect will be a more prosperous 2004.

Respectfully submitted on behalf of Inventronics Limited.

Dan J. Stearne
President and Chief Executive Officer



OVERVIEW

Inventronics Limited designs and manufactures custom metal enclosures and related products for the communications, electronics and other industries in North America. The metal enclosures and related products are used in outdoor or indoor applications to house and protect passive and/or active components. These products are custom designed and manufactured to suit the needs of each customer for each application. In many circumstances, the customer's components are incorporated into the enclosures, which are delivered directly to the end user, providing a complete outsourcing service.

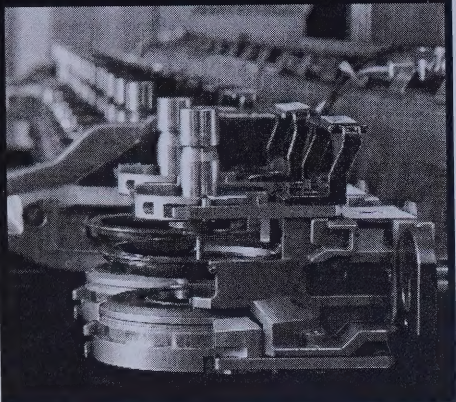
The following discussion and analysis presents the results from operations of the Corporation for the years ended December 31, 2003 and 2002. The majority of the Corporation's revenues are generated through the sale of finished enclosures to one principal customer, which accounted for approximately 81% of the Corporation's 2003 sales.

Comparison of the years ended December 31, 2003 and 2002

SALES

Sales for the year ended December 31, 2003 were $14.0 million compared to $25.6 million for the prior year ended December 31, 2002. In 2003, sales stabilized at $1.0 million to $1.3 million per month and began to strengthen in the latter part of the year as spending on communications and electronics infrastructure improved across the markets served by Inventronics. Although the quarterly sales growth through 2003 was modest, it was a positive indication that demand is improving for Inventronics' services and this upward trend is expected to continue through 2004.

The sales decline in 2003 from 2002 of $11.6 million was attributable to three primary factors. First, the Corporation's principal customer direct-purchased the components installed by Inventronics in its enclosures throughout 2003. This change in the customer's purchasing practice resulted in offsetting reductions to Inventronics' sales and cost of sales for 2003 in the amount of $5.6 million, with no net income effect. Second, reduced infrastructure spending across most of the markets served by Inventronics resulted in a $5.0-million reduction in sales for 2003. Lastly, the decline of the US dollar through 2003, and the corresponding increase in the Canadian dollar, resulted in reduced selling prices totalling $1.0 million since more than 75% of Inventronics' sales are denominated in US currency. The most significant effect of this price decline is that it reduced net income by an equivalent amount.



Continuing efforts to secure additional non-telecom sales have resulted in the successful development of relationships with a number of new customers. Sales to these customers are growing, which will have the desired effect of reducing Inventronics' telecom industry concentration.

COST AND EXPENSES

Cost of sales as a proportion of sales decreased in 2003 to 86%, compared to 91% in 2002. This improvement was the result of controlled spending, production efficiencies and the effect of the change in purchasing practice related to components. The closure of the Corporation's Sherwood Park, Alberta manufacturing facility in 2002 reduced manufacturing fixed costs by nearly $1.9 million. In addition, the consolidation of all production within the Corporation's Brandon facility resulted in improved labour utilization and processing efficiencies totalling in excess of $200,000.

One-time restructuring charges of $234,000 were recognized in the third quarter relating principally to additional staff reductions. This amount is significantly lower than the $3.3 million in charges incurred in 2002 to consolidate manufacturing into Brandon, shut down the Sherwood Park facility and restructure the Corporation's debt obligations.

Selling and administrative spending was reduced 28% in 2003, resulting in total costs of $1.5 million compared to $2.1 million for the prior year. Fourth-quarter expenses were 39% lower than those incurred in the first quarter, reflecting the aggressive stance taken by Management toward aligning fixed costs with sales throughout the year. In addition, the Corporation chose to commence the expensing of stock options as they are granted and as such, recognized $27,000 of compensation cost in this regard in the fourth quarter.

Interest costs increased to $803,000 in 2003 compared to $355,000 in 2002, as a result of the 17% per annum coupon rate associated with the $3.5 million of subordinated promissory notes issued in the fourth quarter of 2002.

NET LOSS

The net loss for the year ended December 31, 2003 amounted to $1.5 million or 22 cents per share compared to a net loss of $7.4 million or $1.07 per share for the year ended December 31, 2002. The decline in sales of $5.0 million and the related lost contribution margin significantly impacted what was expected to be a year in which Inventronics would return to profitability. In addition, the falling US dollar had a significant impact on selling prices in 2003, which resulted in lost net income of approximately $1.0 million.

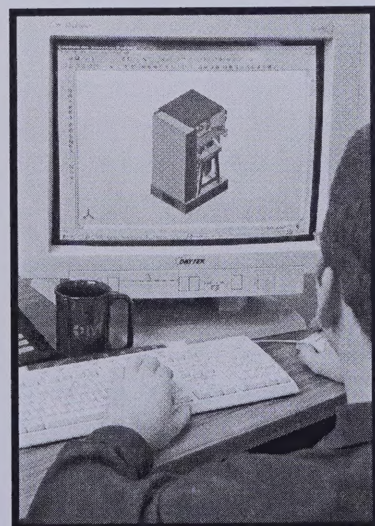
LIQUIDITY AND CAPITAL RESOURCES

Inventronics' working capital position decreased from $1.4 million at December 31, 2002 to $334,000 at December 31, 2003. The Corporation received waivers of default from its lenders pertaining to certain financial ratio covenants related to its financing arrangements as at December 31, 2003. Management is working closely with these lenders to redefine the covenants in the context of its current operating requirements and will be focussing on rebuilding the working capital position through 2004.

In the third quarter of 2003, the Corporation secured additional long-term debt of $248,000 from its subordinated debt lender to finance the restructuring costs incurred in that quarter.

RISK FACTORS

The success of the Corporation is dependent on a number of factors. These factors include the ability to manage and adequately finance anticipated growth; the Canadian dollar exchange rates; the ability of the Corporation's former subsidiary to service its debt obligations; the need to satisfy changing and increasingly complex customer requirements; dependence on a small number of customers and a limited number of key personnel and suppliers; and competition from companies with greater resources.



Management's Report

The accompanying consolidated financial statements of Inventronics Limited and all information in this report are the responsibility of Management of the Corporation and have been approved by the Board of Directors. Management prepared the financial statements based on the information available in accordance with generally accepted accounting principles. The financial statements and other financial information have been prepared using the accounting policies described in Note 1 to the financial statements and reflect Management's best estimates and judgements. Financial information presented throughout this report is consistent with data presented in the financial statements.

A system of internal accounting control is maintained in order to assure, on a reasonable and cost-effective basis, the reliability of this financial information. This system includes established policies and procedures, the selection and training of qualified personnel and an organization providing for appropriate delegation of authority and segregation of responsibilities.

The Board of Directors discharges its duties related to the financial statements by reviewing and discussing financial information prepared by Management and through the activities of its Audit Committee. The Committee meets with Management to assure that it is performing responsibly to maintain financial controls and systems and to review the financial statements of the Corporation. The Audit Committee also meets with the independent auditors to discuss the audit approach, the review of internal accounting controls and the results of their audit examination prior to recommending its approval of the financial statements.

The shareholders' auditors, Deloitte & Touche LLP, Chartered Accountants have examined the financial statements, and their report is presented herein.

Dan J. Stearne
President and Chief Executive Officer

February 26, 2004

Robert P. Brookwell
Senior Vice President and Chief Financial Officer

Auditors' Report

To the Shareholders of Inventronics Limited

We have audited the consolidated balance sheets of Inventronics Limited as at December 31, 2003 and 2002 and the consolidated statements of loss and deficit and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2003 and 2002 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants
Calgary, Canada

February 26, 2004

Consolidated Balance Sheets

(All dollar amounts expressed in thousands of Canadian dollars)

	December 31, 2003	*December 31, 2002*
ASSETS		
Current		
Cash and cash equivalents	**$ –**	$ 1,060
Accounts receivable *(note 2)*	**1,616**	1,918
Inventories *(note 3)*	**1,239**	1,470
Prepaid expenses	**52**	97
	2,907	4,545
Capital assets *(note 4)*	**7,473**	8,168
Other assets *(note 5)*	**1,014**	980
	$ 11,394	$ 13,693

	December 31, 2003	*December 31, 2002*
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Bank operating line	**$ 588**	$ –
Accounts payable and accrued charges *(note 7)*	**1,409**	2,669
Current portion of long-term debt *(note 8)*	**576**	524
	2,573	3,193
Long-term debt *(note 8)*	**4,801**	5,053
Other deferred liabilities	**55**	59
	7,429	8,305
Contingent liability and guarantee *(note 13)*		
SHAREHOLDERS' EQUITY		
Share capital *(note 9)*	**14,447**	14,365
Deficit	**(10,482)**	(8,977)
	3,965	5,388
	$ 11,394	$ 13,693

See accompanying notes

On behalf of the Board:

Gerald D. Pint
Director

Dan J. Stearne
Director

Consolidated Statements of Loss and Deficit

(All dollar amounts expressed in thousands of Canadian dollars)	*December 31, 2003*	*December 31, 2002*
Sales	**$ 13,951**	$ 25,567
Cost and expenses from continuing operations		
Cost of sales	**11,963**	23,328
Selling and administration	**1,539**	2,126
Depreciation and amortization	**908**	1,012
Restructuring charges *(note 12)*	**234**	3,283
	14,644	29,749
Operating loss from continuing operations	**(693)**	(4,182)
Interest expense		
– Current	**22**	68
– Long term	**781**	287
Income tax expense *(note 11)*	**9**	421
Loss from continuing operations	**(1,505)**	(4,958)
Loss from discontinued operations (net of tax) *(note 13)*	**–**	(2,418)
Net loss	**(1,505)**	(7,376)
Deficit, beginning of the year	**(8,977)**	(1,601)
Deficit, end of the year	**$ (10,482)**	$ (8,977)
Basic and diluted loss per share: *(note 10)*		
From continuing operations	**$ (0.22)**	$ (0.72)
From discontinued operations	**–**	(0.35)
Basic and diluted loss per share	**$ (0.22)**	$ (1.07)

See accompanying notes

Consolidated Statements of Cash Flows

(All dollar amounts expressed in thousands of Canadian dollars)	*December 31, 2003*	*December 31, 2002*
Operating activities		
Loss from continuing operations	**$ (1,505)**	$ (4,958)
Items not involving cash *(note 15)*	**1,306**	2,600
Changes in non-cash working capital balances *(note 15)*	**113**	2,141
	(86)	(217)
Financing activities		
Increase (decrease) in bank term loan	**–**	(2,200)
Repayment of capital lease obligations	**(562)**	(762)
Subordinated promissory notes *(Note 8)*	**–**	3,500
	(562)	538
Investing activities		
Acquisition of capital assets	**(214)**	(595)
Funding of other asset *(note 13)*	**(789)**	(63)
Proceeds on disposal of capital assets *(note 12)*	**3**	1,018
	(1,000)	360
Discontinued operations *(note 13)*	**–**	(179)
Increase (decrease) in cash and cash equivalents	**(1,648)**	502
Cash and cash equivalents, beginning of the year	**1,060**	558
Cash and cash equivalents, end of the year *(note 15)*	**$ (588)**	$ 1,060

See accompanying notes

1. SIGNIFICANT ACCOUNTING POLICIES

The Corporation and its inactive, wholly owned subsidiaries (collectively, the "Corporation") design and manufacture custom enclosures and related products for the communications, electronics and other industries in North America. Since the measurement of certain assets and liabilities is dependent upon future events, the preparation of these consolidated financial statements requires the use of estimates, which may vary from actual results. Such estimates have been made using careful judgements, which in Management's opinion, are within reasonable limits of materiality and conform to the following significant accounting policies. These significant accounting policies are presented to assist the reader in evaluating the financial results and, together with the following notes, should be considered an integral part of the consolidated financial statements.

Principles of consolidation

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and include the accounts of the Corporation and its inactive, wholly owned subsidiaries. Significant intercompany transactions and balances are eliminated in these consolidated financial statements.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, cash balances with banks and short-term investments, which approximate the fair value of amounts shown in the financial statements. All highly liquid investments with original maturities of three months or less are classified as cash and cash equivalents.

Inventories

Finished goods and work in progress are stated at the lower of manufacturing cost and net realizable value. Manufacturing cost includes the cost of raw material, labour costs, and applicable production overheads. Raw materials are stated at the lower of cost determined on a first-in, first-out basis, and replacement cost.

Capital assets

Capital assets are recorded at cost less accumulated depreciation and amortization. Capital assets are assessed for possible impairment of value on an ongoing basis. Depreciation and amortization of the original cost is provided on a straight-line basis over the estimated useful life for each asset, with the amortization period not to exceed the following:

Buildings	40 years
Machinery and equipment	15 to 20 years
Furniture and fixtures	10 to 20 years
Computer equipment	3 to 5 years
Leasehold improvements	Term of lease

Leases

Leases are classified as capital or operating. Leases which transfer substantially all of the benefits and risks incident to ownership of property are accounted for as capital leases. Assets acquired under capital leases are amortized on a straight-line basis over the estimated life of the asset or the lease term as appropriate. All other leases are accounted for as operating leases and the related payments are charged to expenses as incurred.

Financial instruments

The Corporation's financial instruments consist of accounts receivable, bank indebtedness, accounts payable, accrued liabilities and long-term debt. The carrying values of these assets and liabilities are considered to approximate fair value unless otherwise disclosed. The Corporation is exposed to interest rate risk arising from fluctuations in interest rates on its temporary investments and short-term obligations.

The Corporation is exposed to credit risk with respect to certain accounts receivable; however, the majority of receivables are with large multi-national customers transacted under formal contractual arrangements. The Corporation follows a program of credit evaluations of customers, and limits the amount of credit extended when deemed necessary. The Corporation maintains provisions for potential credit losses, and any such losses to date have been within Management's expectations.

The Corporation is exposed to foreign exchange risk with respect to accounts receivable and accounts payable. Amounts could fluctuate based upon foreign exchange rate changes. The Corporation periodically assesses its hedging requirements in relation to its export revenues, which are principally denominated in US dollars.

Revenue recognition

Revenue is recognized upon shipment of manufactured goods to the customers. In limited circumstances, revenue may be recognized on a progress-billing basis when it relates to specific design or engineering services. The related costs of sales are comprised of manufacturing costs, including materials, labour, overhead and design service costs.

Income taxes

Future income tax liabilities and future income tax assets are recorded based on temporary differences between the carrying amount of balance sheet items and their corresponding tax basis. In addition, the future benefits of income tax assets including unused tax losses are only recognized to the extent that it is more likely than not that such losses will be ultimately utilized. All future income tax assets and liabilities are measured using enacted tax rates and laws that are expected to apply when the tax liabilities or assets are to be either settled or realized.

Earnings (loss) per share

Earnings (loss) per share is calculated using the treasury stock method, which assumes that the proceeds received upon the assumed exercise of all stock options and warrants outstanding in the year are used to repurchase the Corporation's shares at the average share price during the period.

Stock option plan

Effective January 1, 2003, the Corporation adopted the new CICA Handbook Section 3870, Stock-based Compensation and Other Stock-based Payments. The new accounting policy has been applied prospectively in accordance with the transitional provisions of Section 3870. Under this section, the Corporation accounts for its stock-based compensation plan using the fair value method of valuing the stock options granted, and as such, the values are expensed as compensation costs in the income statement and credited to shareholders equity.

Previously, the Corporation accounted for its stock-based compensation plan using the intrinsic value of the stock options granted, and as such, no compensation costs were recognized in the financial statements for stock options granted at or above market values to employees and directors. Note 9 discloses the pro-forma impact on the Corporation's net earnings for the year ended December 31, 2003 had the fair value method been applied effective January 1, 2002.

Foreign currency translation

Monetary assets and liabilities of the Corporation denominated in foreign currencies are translated at the exchange rates in effect at the balance sheet dates. Revenues and expenses are translated at approximate exchange rates prevailing at the time the transaction occurred. Exchange gains and losses are recognized in the current period earnings.

2. ACCOUNTS RECEIVABLE

December 31,	*2003*	*2002*
Trade receivables	**$ 1,549**	$ 1,806
Government excise taxes	**63**	124
Income taxes recoverable *(note 11)*	**4**	3
	1,616	1,933
Allowance for doubtful accounts	**–**	(15)
	$ 1,616	$ 1,918

While the Corporation sells its products to numerous customers, the major customer referred to in Note 16 represented 62% of the December 31, 2003 accounts receivable balance (December 31, 2002 – 69%).

3. INVENTORIES

December 31,	*2003*	*2002*
Finished goods	**$ 83**	$ 110
Work-in-progress	**163**	172
Raw materials	**993**	1,188
	$ 1,239	$ 1,470

4. CAPITAL ASSETS

	December 31, 2003		*December 31, 2002*	
	Cost	*Accumulated depreciation*	*Cost*	*Accumulated depreciation*
Land	**$ 6**	**$ –**	$ 6	$ –
Buildings	**1,711**	**668**	1,707	625
Machinery and equipment	**9,264**	**3,485**	9,224	3,103
Furniture and fixtures	**241**	**71**	258	69
Computer equipment	**1,664**	**1,279**	2,246	1,577
Leasehold improvements	**117**	**27**	179	78
	$ 13,003	**$ 5,530**	$ 13,620	$ 5,452
Net book value	**$ 7,473**		$ 8,168	

Included in machinery and equipment are assets acquired under capital lease at a cost of $3,897 (December 31, 2002 – $4,466) with accumulated depreciation of $871 (December 31, 2002 – $1,156).

5. OTHER ASSETS

December 31, 2003	*2003*	*2002*
Long-term receivable *(note 13)*	**$ 746**	$ 710
Deferred financing costs	**268**	270
	$ 1,014	$ 980

The value of the 1,715,000 warrants granted to the subordinated promissory note holders as described in Note 9 has been reflected as deferred financing costs and is being amortized on a monthly basis over the remaining term of the notes.

6. BANK CREDIT FACILITIES

At December 31, 2003, the Corporation had the following credit facility agreements:

Committed revolving operating credit facility

This facility has an authorized limit of $1,000 (or the equivalent in US dollars) available by way of prime-based loans, banker's acceptances, letters of credit or guarantee, bearing interest at bank prime plus 2.75% per annum (December 31, 2003 – 7.25%; December 31, 2002 – 6.5%) and expires October 16, 2004. The balance outstanding on this facility at December 31, 2003 was $533 (December 31, 2002 – nil).

Reducing term facility

This facility has an authorized limit of £710 (CA$1,639) available by way of letters of credit or prime-based loans, bearing interest at prime plus 3.0% per annum and expires November 30, 2007. This facility is available to be drawn in the event that the letter of credit issued in support of the term debt of a former subsidiary is called upon for payment. If the facility is drawn upon, the principal is repayable in quarterly instalments of $119, with any remaining balance payable on November 30, 2007.

As collateral for these facilities, the Corporation has pledged a fixed and floating charge debenture in the amount of $3,000 with a fixed charge on certain of its manufacturing plant assets, an assignment of its accounts receivable and book debts and a general security agreement. The credit facilities contain restrictive covenants requiring Inventronics to maintain certain financial ratios and for December 31, 2003 the lender waived the default of compliance with these covenants.

7. ACCOUNTS PAYABLE AND ACCRUED CHARGES

December 31, 2003	*2003*	*2002*
Trade payables	**$ 1,187**	$ 1,417
Accrued employee costs	**217**	385
Current portion of continuing liability *(note 13)*	**–**	753
Other payables and accruals	**5**	114
	$ 1,409	$ 2,669

8. LONG-TERM DEBT

December 31, 2003	2003	2002
Subordinated promissory notes with a five-year term, bearing interest at the rate of 17% per annum, 14% paid monthly and 3% accrued, which is payable at maturity. The principal is repayable in quarterly instalments of $175 in arrears commencing January 2005 and the remaining balance is due December 31, 2007. For December 31, 2003 the lenders waived the default of compliance with certain financial ratio covenants pertaining to the subordinated promissory notes.	**$ 3,500**	$ 3,500
Accrued interest of 3% compounded quarterly at 17% on the outstanding balance of the subordinated promissory notes. On October 17, 2003, the Corporation's sub-debt lender agreed to provide additional long-term financing of $248 by permitting six months of cash interest to be accrued to the end of the term of the notes.	**373**	11
Capital leases bearing interest at fixed rates ranging from 7.7% to 10.3% per annum with remaining payment terms of up to 3 years.	**1,504**	2,066
	5,377	5,577
Less current portion	**(576)**	(524)
	$ 4,801	$ 5,053

Principal payments due on long-term debt, other than obligations under capital leases, are as follows:

2005	$ 700
2006	700
2007	2,473
	$ 3,873

Future minimum capital lease payments are as follows:

2004	$ 680
2005	667
2006	324
	1,671
Less imputed interest	(167)
	$ 1,504

9. SHAREHOLDERS' EQUITY

An unlimited number of common shares are authorized for issue.

December 31,	2003		2002	
	Share quantity		Share quantity	
Balance, beginning of the year	**6,875,726**	**$ 14,365**	6,875,726	$ 14,095
Fair value of stock options granted		**27**		–
Warrants issued		**–**		270
Warrants repriced		**55**		–
Balance, end of the year	**6,875,726**	**$ 14,447**	6,875,726	$ 14,365

On October 17, 2003, the Corporation reduced the exercise price of its outstanding 1,715,000 share purchase warrants to 22 cents from 40 cents, leaving all other warrant terms unchanged. The repricing was agreed to by Inventronics' subordinated debt lender, the holder of the warrants, to secure an additional $248 of long-term debt. The value of the warrant repricing has been reflected within share capital at December 31, 2003. The fair value of the warrants was determined using a modified Black-Scholes option-pricing model adjusted for dilution, trading liquidity and transaction costs. These warrants were originally issued November 22, 2002, in conjunction with $3,500 of subordinated promissory notes as discussed in Note 8. Each warrant entitles the holder to purchase one common share at an exercise price of 22 cents at any time on or before the fifth anniversary of the issue. An additional 600,000 warrants issued in 2000 expired at the end of their term without being exercised during the year.

The Corporation has a stock option plan for the benefit of employees and directors. Under the plan, the Corporation may grant options, up to an authorized limit of 700,000, to its employees and directors for shares of common stock. The exercise price of each stock option is equal to the last closing market price of the Corporation's common stock on the date of grant, and the maximum period during which an option may be exercised is 10 years. The plan provides for vesting on the basis of one-third immediately and the remainder at a rate of one-third on each of the following two grant date anniversaries with certain exercise restrictions related to the market trading price of the shares at the time of exercise. Options granted prior to fiscal 2000 vested either immediately or on the basis of 20% per year over a five-year period and expire as outlined below or, in certain circumstances, on termination of services to the Corporation.

A summary of the Corporation's stock option plan is as follows:

December 31,	*2003*		*2002*	
	Share quantity	*Weighted Average Price*	*Share quantity*	*Weighted Average Price*
Outstanding, beginning of the year	**592,434**	**$ 1.68**	802,667	$ 2.29
Granted	**395,000**	**0.26**	184,700	0.83
Expired or cancelled	**(350,000)**	**1.90**	(394,933)	2.52
Outstanding, end of the year	**637,434**	**$ 0.67**	592,434	$ 1.68

The fair value of stock options granted in 2003 and recognized in the fourth quarter was $27 as determined using a modified Black-Scholes option-pricing model. This model employs a risk-free interest rate ranging from 4.0% to 4.9%, option life of 10 years, expected future volatility of 70% and no dividends were assumed. The resultant fair values of stock options granted have been recognized as compensation costs within the current period.

As permitted by CICA Handbook Section 3870, the Corporation provides pro-forma disclosure of the fair value of stock options granted subsequent to January 1, 2002 and prior to January 1, 2003. The fair value of stock options granted in 2002, which vested in 2003, amounted to a compensation cost of $39 which has not been reflected in the current period.

The following options to purchase common shares were outstanding as at December 31, 2003:

December 31,	*2003*		*2002*	
Option price per Exercisable share range	*Weighted Average Price*	*Share quantity*	*Weighted Average Price*	*Share quantity*
$ 0.20 – $ 0.49	**$ 0.26**	**395,000**	$ 0.28	155,000
$ 0.50 – $ 0.74	**0.64**	**73,334**	0.64	73,334
$ 0.75 – $ 0.99	**0.83**	**138,100**	0.83	99,267
$ 1.00– $ 6.60	**5.32**	**31,000**	5.32	31,000
	$ 0.67	**637,434**	$ 0.94	358,601

10. LOSS PER SHARE

December 31, 2003	*2003*	*2002*
Common shares outstanding	**6,875,726**	6,875,726
Weighted average common shares	**6,875,726**	6,875,726
Diluted shares outstanding	**9,228,160**	8,590,726
Diluted weighted average common shares	**8,952,913**	6,909,969

For the years ended December 31, 2003 and 2002, diluted loss per share does not differ from the basic loss per share since the conversion of outstanding stock options and warrants would have an anti-dilutive effect.

11. INCOME TAXES

December 31, 2003	*2003*	*2002*
Income taxes at Canadian statutory rates (including provincial taxes)	**$ (568)**	$ (1,731)
Differences from statutory rates relating to:		
Benefit of non-capital losses not recognized	**568**	1,731
Writedown of future tax benefit	**–**	371
Expenses not deductible for tax purposes	**6**	12
Capital taxes	**24**	50
Other	**(21)**	(12)
Income tax expense (benefit)	**$ 9**	$ 421

The income tax expense (benefit) is comprised as follows:

Capital tax expense	**$ 9**	$ 50
Future tax expense (benefit)	**–**	371
	$ 9	$ 421

Realization of future income tax assets is dependent upon generating sufficient future taxable income during the period in which the temporary differences are deductible. At December 31, 2003, the realization of future income tax assets remains uncertain and therefore these amounts have not been recognized. The Corporation has non-capital tax losses of approximately $5,324 expiring in 2008, 2009 and 2010. In addition, the Corporation has allowable capital losses of approximately $1,753 (December 31, 2002 – $1,753) available to offset future taxable capital gains, the benefit of which has not been recorded in the accounts.

12. RESTRUCTURING CHARGES

Continued slow activity in the Corporation's principal markets resulted in certain non-recurring charges being incurred to reduce the operating cost structure of the business. The costs for 2003 were principally related to employee terminations. The costs for 2002 related to the closure of the Sherwood Park, Alberta facility and the transfer of its production to the Corporation's Brandon, Manitoba manufacturing facility.

December 31, 2003	*2003*	*2002*
Manufacturing capacity rationalization costs	**$ 234**	$ 1,486
Non-cash writedown of capital assets	–	1,175
Costs to restructure debt obligations	–	622
	$ 234	$ 3,283

13. DISCONTINUED OPERATIONS AND CONTINUING LIABILITY

Discontinued operations

On September 17, 2002, the Corporation completed the sale of all classes of outstanding shares of its wholly owned subsidiary, Eurocraft Enclosures Limited, for no net proceeds. Effective June 30, 2002, the Corporation adopted a plan to dispose of Eurocraft, which it purchased on April 1, 2001 for cash and provided security support for Eurocraft's long-term debt obligations.

December 31, 2003	*2003*	*2002*
Revenue	$ –	$ 5,671
Operating costs	–	6,539
Writedown of net investment (see below)	–	1,356
Closing costs of sale	–	194
Loss from discontinued operations	$ –	$ (2,418)

The Eurocraft net investment written off at June 30, 2002 is summarized as follows:

Non-cash working capital	$ (3,730)
Capital assets	1,173
Goodwill	4,930
Future tax benefit	554
Long-term debt	(1,694)
Foreign currency translation adjustment	123
	$ 1,356

Continuing liability and guarantee

At December 31, 2003, the Corporation continued to have a letter of credit in the amount of £710 (CA$1,639) outstanding in support of the long-term debt obligation of Eurocraft Enclosures Limited, which was a wholly owned subsidiary of the Corporation until September 17, 2002. The Corporation entered into an agreement whereby it made interest and principal payments on the Eurocraft term debt obligations until October 31, 2003. At the end of this period, Eurocraft resumed making these payments and will repay the amounts paid by the Corporation on behalf of Eurocraft, interest free, commencing January 2006. Principal on the Eurocraft term loan is repayable over 36 months commencing January 2003 at the rate of £30 (CA$68) per month. As each monthly principal payment is made, the Corporation's letter of credit obligation is automatically reduced by an equivalent amount. At December 31, 2003, the Corporation has a long-term receivable discounted to a present value of $745 reflected within Other Assets.

14. OPERATING LEASE COMMITMENTS

The minimum annual operating lease payments are as follows:

2004	$ 66
2005	46
2006	39
2007	7
	$ 158

15. SUPPLEMENTARY CASH FLOW INFORMATION

	December 31, 2003	December 31, 2002
Items not involving cash:		
Depreciation and amortization	**$ 965**	$ 1,012
Amortization of deferred government assistance	**(4)**	(19)
Accrued interest on subordinated promissory notes	**320**	11
Fair value of stock options granted	**27**	–
Gain on disposal of capital assets	**(2)**	–
Non-cash restructuring costs	**–**	1,175
Future income taxes	**–**	371
Forgiven loan to former subsidiary	**–**	50
	$ 1,306	$ 2,600
Changes in non-cash working capital balances:		
Accounts receivable	**$ 346**	$ 1,508
Inventories	**231**	1,675
Prepaid expenses	**45**	42
Accounts payable and accrued charges	**(508)**	(1,217)
Income taxes payable (recoverable)	**(1)**	133
	$ 113	$ 2,141
Breakdown of cash and cash equivalents (bank indebtedness):		
Cash	**$ –**	$ 1,060
Operating loan	**(533)**	–
Outstanding cheques	**(55)**	–
	$ (588)	$ 1,060
Supplemental disclosure of cash paid for:		
Interest	**$ 460**	$ 392
Income taxes	**$ 27**	$ 82

16. SEGMENTED INFORMATION

The Corporation operates within one segment comprising the design and manufacture of custom enclosures and related products for the communications, electronics and other industries in North America.

Significant portions of the Corporation's sales were to, or made with the assistance of, a major international customer through a formal supply agreement. This company has been a customer of the Corporation for more than 25 years and Management is of the opinion that this relationship will continue. For the year ended December 31, 2003, this customer accounted for approximately 81% of the Corporation's revenue (December 31, 2002 – 80%).

17. COMPARATIVE FIGURES

Certain 2002 comparative figures have been reclassified to conform to the current year's presentation.

▶ Corporate Governance

BOARD MEMBERSHIP AND INDEPENDENCE

Three of the five members of Inventronics' Board of Directors, including the Chairman, are considered to be unrelated directors. None has an interest, business or other relationship that could be perceived to interfere with his ability to act in the best interests of Inventronics and its shareholders. The related directors are Dan Stearne, President and CEO of Inventronics, and Julian Remedios, Partner of Mercantile Bancorp Limited, the agent representing Inventronics' subordinated debt lenders.

In addition to having a majority of unrelated directors, there are additional practices in place which assure the Board of its independence from Management:

- *the Board and its committees are all chaired by unrelated directors;*
- *a majority of the members of all committees are unrelated directors;*
- *a portion of committee agenda items are mandatory and recurring; and*
- *a portion of all Board meetings are held with no Management personnel present.*

BOARD MANDATE

The Board's mandate is to provide direction for the appropriate stewardship of Inventronics, and to act in the best interests of its stakeholders. The Board conducts its activities in accordance with:

- *the Business Corporations Act (Alberta);*
- *Inventronics' Articles of Continuance and By-Laws;*
- *Inventronics' Code of Conduct; and*
- *other applicable Inventronics policies.*

The Board approves all significant decisions that affect the Corporation before they are implemented. In addition, all major corporate plans, including strategic and succession plans are reviewed and approved by the Board.

Directors fulfill their roles by preparing and attending regularly scheduled meetings of the Board and its committees. At the meetings, directors receive and review Management-prepared reports concerning Inventronics' business operations and financial performance.

GOVERNANCE COMMITTEE

The Governance Committee, composed exclusively of non-Management directors, a majority of whom are unrelated directors, is responsible for developing and monitoring Inventronics' overall governance principles, recommending any changes, and approving the Corporation's disclosures in response to the Toronto Stock Exchange's Corporate Governance Guidelines. The Committee evaluates the effectiveness of the Board, committees and individual directors.

AUDIT COMMITTEE

The Audit Committee, chaired by an unrelated professionally qualified director, is responsible for reviewing audit functions and recommending for approval to the Board all public disclosure information. The Committee makes inquiries to ensure that Management has effective internal control systems in place, and meets with the auditors with and without Management present on a quarterly basis.

MORE INFORMATION

For more information about Inventronics' corporate governance practices, including responses to each of the TSX's Corporate Governance Guidelines, refer to the Investor Relations section at www.inventronics.com.

DIRECTORS

Gerald D. Pint
Chairman
Retired Executive
3M Company

Donald H. Penny
Chairman
Meyers Norris Penny,
Chartered Accountants

Julian F. Remedios
Partner
Mercantile Bancorp Limited

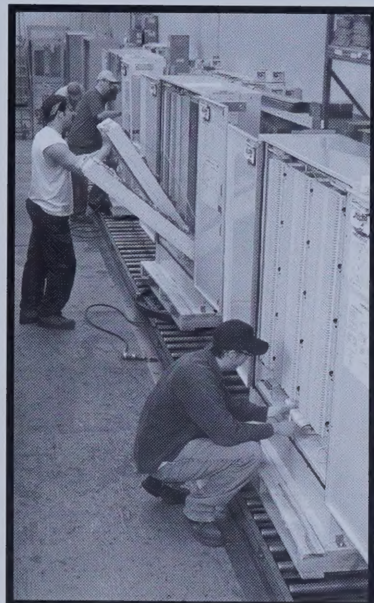
Dan J. Stearne
President and CEO
Inventronics Limited

Alan R. Wiggan
Retired Executive
Parallel Strategies

OFFICERS

Dan J. Stearne
President and CEO
Inventronics Limited

Robert P. Brookwell
Senior Vice President and CFO
Inventronics Limited



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WEB SITE

www.inventronics.com

ANNUAL GENERAL MEETING

May 6, 2004 at 9:30 a.m. (MT)
Sun Life Plaza Conference Centre
140 – 4th Avenue S.W.
Calgary, Alberta
Canada T2P 3N3

BANKERS

Mercantile Bancorp Limited
Royal Bank of Canada

REGISTRAR AND TRANSFER AGENT

Computershare Trust Company of Canada

AUDITORS

Deloitte & Touche LLP

LEGAL COUNSEL

Burnet, Duckworth & Palmer

STOCK EXCHANGE LISTING

The TSX Venture Exchange
Stock Symbol: IVT

IVI

Inventronics Limited

www.inventronics.com